



# Reducing Fuel Tax Evasion in Wisconsin

Wisconsin's motor fuel tax of 28.5 cents per gallon is the primary source of revenue for state highway improvements. Current law provides for exemptions from the tax for off-road or non-highway use of motor fuel in agriculture, industry and marine recreation. Claimants fill out an exemption certificate with basic identification and intended usage information and file it with a supplier or vendor.

## What's the Problem?

Studies conducted by the Federal Highway Administration and the Council of State Governments indicate that substantial transportation revenue is lost nationwide due to fuel tax evasion. This study analyzes data from nine Midwestern states to determine the extent of fuel tax evasion in Wisconsin and proposes possible corrections.

## Research Results

The analysis indicates that Wisconsin's annual consumption of tax-exempt fuel for agriculture exceeds that of the average Midwestern state by nearly \$4 million. Given that the analysis controls for the number of farms, total acreage, tax rates, and other state-by-state factors, the results indicate that Wisconsinites use and claim agriculture rebates substantially more than their neighbors. Evasion is likely occurring, given that no other factors can account for the high rate. Analysis also shows that Wisconsin exceeds the other Midwestern states in use of tax-exempt fuel for industrial purposes. By contrast, marine gasoline usage is average.

This inflated sale of off-road fuel also curtails Wisconsin's apportionment of funds from the Federal Highway Trust Fund (HTF) for critical highway construction projects. The federal-aid highway apportionment process uses state fuel volume and fuel tax revenue data to distribute HTF dollars for various programs including surface transportation, interstate maintenance and the national highway system. Abuse of the off-road exemption reduces federal highway dollars coming to Wisconsin.

## Recommendations

Results of this study indicate there are a number of opportunities to thwart evaders, recover millions in lost state revenue, and help ensure Wisconsin receives its full share of HTF funds. The report lays the groundwork for effective fuel tax reform in Wisconsin. The effort includes an in-depth study of the evasion problem on the federal and state levels and documents solutions that are working.

The combined federal and state experience with fuel tax administrative reform provides effective policy options for fighting evasion. The federal effort forges collaborations among government agencies, beefing up enforcement and enhancing resources. Many states, particularly southern ones, have implemented reform with great success. Northward, Minnesota toughened its agriculture gasoline tax refund law in 1998 and has enjoyed a significant drop in those refunds: approximately \$3.7 million a year pre-1998 vs. \$1.1 million after. Minnesota has also enjoyed a dramatic decrease in industrial gas tax refunds: approximately \$277,000 vs. \$1.4 million annually. (The Minnesota Statutes language on petroleum and other fuels taxes can be reviewed at <http://www.revisor.leg.state.mn.us/stats/296A/>.)

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*Wisconsin's annual consumption of tax-exempt fuel for agriculture exceeds the average of other Midwestern states—after controlling for the number of farms, total acreage, tax rates and other state-by-state factors.*

**“This report provides a basis for careful reexamination of Wisconsin’s fuel tax laws.”**

- Allyn Lepeska,  
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Wisconsin's Off-  
Road Fuel Tax  
Collection  
Process: A  
Midwestern  
Comparative  
Analysis and  
Assessment

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**Table 4: Estimated Annual Agriculture Gasoline Refunds**

State	Monthly Gallon Estimated Range	Fuel Tax Rate FY 2000	Amount Agriculture Refund	Higher/Lower Than Other Midwestern States
Illinois	7,251,000- 7,709,210	\$0.19	\$1,377,690 – 1,464,750	Higher
Iowa	22,298,000- 23,332,000	\$0.20	\$4,459,600 – 4,666,400	Higher
Michigan	N.S.	\$0.19	N.S.	Average
Missouri	N.S.	\$0.17	N.S.	Average
Minnesota before 1998	18,741,000- 18,924,000	\$0.20	\$3,748,200 – 3,784,800	Higher
Minnesota after 1998	5,618,370- 7,116,000	\$0.20	\$1,123,674 – 1,423,200	Lower
<b>Wisconsin</b>	<b>15,808,000- 16,594,000</b>	<b>\$0.254</b>	<b>\$4,015,232 – 4,214,876</b>	<b>Higher</b>
N.S. – Not significantly different from zero using 5% level of confidence				

The investigators propose a series of policy options to improve the enforcement of Wisconsin’s motor vehicle fuel tax, including:

- Statutes. Amend to presume that motor vehicle fuel will only be used by vehicles operating on Wisconsin roads. Implement a refund permit process or income tax credit. Require claimants to provide sufficient evidence to substantiate usage.
- Administration. Gather additional information from claimants to facilitate audit, inspection, collection and enforcement. Designate “points of sale.” The state loses the time value of money for each delay in the point at which fuel tax is collectible. Eliminate the deduction to suppliers for their purchasers’ off-road exemptions, and require the suppliers to collect and remit that tax. This would eliminate fraudulent deductions by suppliers.
- Penalties. Make criminal fuel tax evasion a felony. Enhance fines and other civil penalties associated with repeats. The threat brought by enhanced penalties could act as leverage in negotiating with suspects. It would permit the state to use amnesty programs for admitted evaders to increase collections.

The report provides helpful appendices of statistical analysis results and motor fuel tax law comparisons for readers who would like to explore those areas. Tables detail the annual agriculture and industrial gasoline refunds for Midwestern states, and an easy-to-scan compendium of motor fuel tax laws compares the Midwestern states’ approaches.

## Benefits

The recommended actions could produce major benefits for WisDOT, the Wisconsin Department of Revenue and state highway users including:

- more efficient administration of the motor vehicle fuel tax law;
- improved integrity and public image for the fuel tax program;
- reclamation of funding for highway building and maintenance

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